



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

June 10, 2004

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
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First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

**MOTION TO SUPPORT THE AGREEMENT BETWEEN THE GOVERNOR AND
LOCAL GOVERNMENTS REGARDING THE STATE BUDGET (ITEM NO. 5, AGENDA
OF JUNE 15, 2004)**

Item No. 5 on the June 15, 2004 Agenda is a motion by Supervisor Knabe to support the Agreement reached between the Governor and local governments regarding their contribution to the State budget solution, and instructing the Chief Administrative Office to draft a letter to the Governor, Legislative Leaders, and the County Legislative Delegation indicating that if changes to the Agreement are being considered, local governments should be consulted prior to any action.

The Governor's January Budget proposed a permanent shift of \$1.3 billion in local government property taxes to schools to reduce the State's cost of funding K-12 education. Under the proposal, counties would have accounted for over \$900 million of the total, and Los Angeles County alone would have lost over \$300 million annually. After the Administration indicated that it was open to alternative ways of achieving the same level of budget savings, local governments entered into negotiations to seek equitable distribution of the burden and a time limit on their contribution. In addition, they offered to withhold their active support for their Local Government Initiative that seeks to amend the Constitution to protect local revenues from being taken by the State, and enact reforms in the mandate process to strengthen protections from unfunded mandates.

In early May, after it became clear that the Local Government Initiative would have enough signatures to qualify for the ballot in November, an agreement was reached with the Administration that the Governor included in his May Revision. In return for agreeing to contribute \$1.3 billion for two years to the State Budget solution, local governments received the assurance from the Governor that he would seek, and actively support certain constitutional and statutory changes that would provide local governments with virtually all

of the protections they were seeking through the Local Initiative. In return, local governments agreed not to campaign for their initiative if the Legislature approved the agreed-upon changes, and placed a constitutional amendment reflecting them on the November ballot.

The major provisions of the agreement affecting local governments include:

- A constitutional amendment capping the vehicle license fee rate at 0.65 percent (the current effective rate), thereby eliminating the current State backfill of \$4.1 billion. The reduced VLF revenue would primarily go to counties for realignment programs, with the small remainder flowing to cities;
- Replacement of the eliminated backfill for cities and counties with an equivalent amount of property taxes to be shifted from schools, except for their combined \$700 million budget contribution for two years;
- Each level of local government was allowed to determine the method of allocating its contribution. Counties, whose contribution dropped from \$909 million to \$350 million, chose to allocate their reduction on a per capita basis like the VLF, resulting in a loss to Los Angeles County of \$103 million each year;
- A constitutional amendment that would prevent the State from ever again taking the revenue of any local government from the property tax, sales tax, or the remaining VLF, without their permission;
- A constitutional amendment that would require the State to repay to cities and counties, in August 2006, the \$1.2 billion VLF "gap" loan, and to begin in FY 2006-07 to repay over a five-year period the approximately \$1.4 billion in deferred mandate reimbursements to local governments;
- A constitutional amendment that would strengthen the protection against unfunded mandates by expediting the process for determining whether a new law constitutes a mandate, and how much local governments must be reimbursed, as well as automatically repealing any mandate that the Legislature fails to fund in a reasonable period of time;
- A constitutional requirement that the State restore the ¼ cent local sales tax rate used to finance the deficit reduction bonds, once they are repaid;
- Restoration in statute of the 1991 VLF depreciation schedule and repeal of the poison pill provisions that invalidated the schedule earlier this year; and

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- Expansion of the ability of local governments to borrow against future revenues.

All of these provisions will require the approval of two-thirds of the Legislature.

On Wednesday, June 9, 2004, the Budget Conference Committee discussed the Local Government Agreement. Since both houses assume the \$1.3 billion budget savings, the loss of these funds would seem to be a foregone conclusion. However, there was a spirited discussion between the Republican members of the Committee and some of the Democratic members over a possible legislative version of the Agreement. Generally, the two Republican members seem to support the Agreement negotiated by the Governor as necessary to prevent the approval by the voters of the Local Government Initiative in November. Moreover, they maintain that it is too late to make substantive and potentially controversial changes because the deadline for finalizing the ballot pamphlet is only two weeks away. However, Assembly Member Steinberg (D-Sacramento) and Senator Alpert (D-San Diego) argued that the Legislature had a stake in protecting its ability to reform the State-local fiscal relationship which numerous commissions and studies had found to be dysfunctional, and urged their colleagues not to foreclose future reform by accepting the protection of local revenue provision in the Agreement. Instead, Steinberg asked the Legislative Analyst's Office to prepare language that would allow local revenues to be altered, but not reduced in the aggregate, so that future Legislatures could address the tendency for local land use decisions to be driven by a desire to maximize revenue rather than to meet the State's need for housing.

At this time, neither the statutory nor the constitutional provisions have been introduced. A Legislative Counsel draft of the statutory changes has been reviewed by staff of County Counsel, the Auditor and the Chief Administrative Office. While changes, and or clarifications were suggested, the draft reflects the major elements of the Agreement outlined above. A Legislative Counsel draft of the constitutional provisions is supposed to be available this week. **While I am sympathetic to the fiscalization of land use problem, I believe that the opportunity to secure constitutional protection from future revenue reductions is a higher priority at this time. As long as the language in the evolving agreement continues to be advantageous to Los Angeles County, I recommend that your Board approve the motion to support the Local Government Agreement with the Governor.**

DEJ:GK
MAL:JR:ib

c: Executive Officer, Board of Supervisors
County Counsel
Department of Health Services